

[REDACTED]

NOV 20 1987

Employer Identification Number: [REDACTED]
Accounting Period Ending: [REDACTED]
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition or exemption from Federal income tax under section 501(c)(3) of the Code.

The information submitted indicates that you were established on [REDACTED], as a non-profit corporation pursuant to the laws of the state of [REDACTED]. The goal of your organization is to provide quality health care while containing costs.

Your principal activity is as a conduit organization that links your provider members with subscribers through their employers. Your organization is a membership organization composed of [REDACTED] participating members of its medical staff. In addition, certain nearby hospitals and members of their medical staffs that provide services that are not currently available at [REDACTED] will be offered the opportunity to provide these services on a contractual basis as part of your organization. A one time membership fee of \$ [REDACTED] is required of each provider member.

Your organization enters into contracts only with self-insured groups. The contracts call for the employer to make available to its employees information regarding the benefits of using a provider who is a member of your organization. As an inducement to utilize these providers the employer agrees to reduce the amounts due as a deductible or as co-insurance. Your organization agrees to help contain the employer's costs through utilization management measures, including pre-admissions, retrospective review of all emergency admissions, and concurrent review of the length of stay for each patient.

Section 501(c)(3) of the Code provides for the exemption of organizations that are organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

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Section 1.501(c)(3)-(a)(1) of the Income Tax Regulations provides that in order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more purposes specified in that section. If an organization fails to meet either the organizational or the operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

The presence of a single noncharitable, noneducational, or nonscientific purpose or activity, if substantial in nature, will preclude exemption regardless of the number or importance of truly charitable, educational, or scientific purposes or activities. See Batter Business Bureau v. U.S., 326 U.S. 279 (1945).

It is an established principle under the law of charitable trusts that the promotion of health constitutes a charitable trust and therefore is considered a charitable purpose within the meaning of section 501(c)(3). See Eastern Kentucky Welfare Rights Organization v. Simon, 506 F. 2d 1278 (D.C. Cir. 1974), vacated on other grounds, 426 U.S. 26, 46 (1975). However, the "promotion of health" rule under the law of charitable trusts has two limitations. The first limitation is that there must not be a limited class of beneficiaries. In other words, the class must be sufficiently large so that the community as a whole benefits. Restatement (Second) of Trusts § 368, Comment b (1959); IV A. Scott, Scott on Trusts § 372.2 (3d ed. 1967) [hereinafter cited as Scott on Trusts]. Second, an entity which promotes health will not be considered charitable if it is conducted for the financial benefit of the owner. Scott on Trusts § 372.1. These limitations are the same as the provisions of section 1.501(c)(3)-1(d)(1)(ii). That section provides that an exempt organization must serve a public rather than a private interest. The organization must demonstrate that it is not organized or operated to benefit private interests such as "designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests."

Based on the information submitted, we have concluded that you do not qualify for exemption under section 501(c)(3) of the Code. Your activities of connecting your provider members with patients through contracts with employers are not activities which accomplish one or more of the exempt purposes specified in section 501(c)(3). There is no evidence that your activities promote the general health of the community. Your activities further the common business interest of your member providers. There is nothing inherently charitable or educational in the performance of administrative functions for physicians whose medical care delivery is not dependent on such services. These activities are not of

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a charitable, educational, or scientific nature and, since they are substantial, exemption is precluded under section 501(c)(3). See Letter Business Bureau.

Accordingly, you do not qualify for recognition of exemption under section 501(c)(3) of the Code. Contributions to you are not deductible under section 170 of the Code. You are required to file federal tax returns.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate, within 30 days, of the date of this letter. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director, Atlanta, Georgia. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office. Also, the appropriate state officials will be notified of this action in accordance with section 6104(c) of the Code.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7426(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

Sincerely yours,

Chief, Exempt Organizations
Atlanta Branch

cc: [redacted]
Attn: LO Group

cc: State officials of [redacted]

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Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[redacted]	[redacted]				
Surname	[redacted]					
Date	11/17/87	11/20/87				